

**BOARD OF SUPERVISORS
FINANCE/GOVERNMENT OPERATIONS AND
ECONOMIC DEVELOPMENT COMMITTEE
INFORMATION ITEM**

SUBJECT: Monthly Report/Implementation of the Enterprise Resource Planning (ERP) Project

ELECTION DISTRICT: Countywide

STAFF CONTACTS: John Sandy, County Administration
Robert Middaugh, County Administration
Wendy Wickens, Information Technology
Penny Newquist, Finance and Procurement
Vince Marchesano, Vivad Technologies, LLC

PURPOSE: To provide an update on the status of the County's Enterprise Resource Planning (ERP) system implementation.

BACKGROUND: The Loudoun County Government and Loudoun County Public Schools (LCPS) began implementation of a new Enterprise Resource Planning (ERP) commercial off-the-shelf (COTS) system in January 2012 as part of a larger program to replace three core financial systems [i.e., ERP, Computer Aided Mass Appraisal (CAMA), and Integrated Tax Revenue (ITR)]. This action was based on an independent assessment of the County's legacy financial, human resources and taxation systems, as well as the future replacement of those systems.

In November 2008, Digicon Corporation completed the assessment and concluded that when the County acquired its current systems, more than 20 years ago, the functions and features provided, and the architecture upon which they were built (IBM), met the County's business and budgetary requirements. However, over the years, the technology exceeded its useful lifecycle, and operations and support was proving to be increasingly complex and difficult to maintain. Digicon recommended the County consider implementing a state-of-the-art ERP system to improve business and operational efficiency, which also would meet the demands for information in a more reliable and timely manner, with requisite quality and accuracy.

On November 2, 2011, the Board authorized the negotiation of a contract, not to exceed \$21,050,064, to implement ORACLE EBS (eBusiness Suite) as the ERP System for Loudoun County Government and LCPS. The contract was awarded to Applications Software Technology Corporation (AST), a Platinum Oracle partner, which included the Oracle EBS licensed software and implementation services for the ERP system.

On December 4, 2013, the Board appropriated an additional \$9,160,925 to the capital project budget (ERP Implementation Fund), which was used to complete outstanding items for Phase 1, and to provide additional resources to complete Phase 2. Not all funds have been expended to date. An additional 7.00 FTEs were added to the Department of Information Technology (DIT) and the former Department of Management and Financial Services' Finance and Budget Divisions, to provide needed system support. In December 2015, the Board appropriated an additional \$1,500,000 from the FY 2015 fund balance to complete the Phase 2 implementation, bringing the ERP capital budget to \$32,228,494. It should be noted that this amount does not include budgeted contracted project management services, which totals \$3,465,848. Expenses for consulting and other technical support through Fiscal Year 2016 not in the project budget are \$1,595,771.

ISSUES: This item provides a monthly update from the Department of Finance and Procurement and DIT on the implementation of the ERP system.

The Client Manager, Vince Marchesano, and County staff will be present to discuss details and answer questions.

AST Contract Information

Loudoun County entered into a firm fixed price contract with AST to implement an ERP solution. It was determined during contract negotiations that payment would be deliverable-based, and County interests protected, as they relate to AST's contract, per a performance bond in the amount of \$11,290,720, which represented the value of the AST contract at that time. Unlike construction initiatives, for which completion of work is solely managed and executed per the discretion of the contractor, software implementations such as this require a collaborative partnership between customer and vendor—that is, both parties manage and execute significant and interconnected portions of the project. Due to the inter-dependent nature of the work, liquidated damages were not included in the contract terms. However, either party may seek remedy for actual damages, if incurred.

In addition, Loudoun withholds a 20 percent retainage (\$995,401 has been withheld to date) from each deliverable payment, of which, 15 percent is released to AST upon Loudoun's final acceptance of each project phase. The remaining 5 percent will be released upon Loudoun's final acceptance of the overall system, which includes settlement of all outstanding change orders and/or claims.

Phase 2 - Human Resources and Payroll

The Phase 2 implementation began in January 2014, however, after failing all testing events and the impossibility to achieve three different planned go live dates (i.e., March 2015, June 2015 and September 2015), AST was notified in July 2015 that they were in material breach of the contract. Based on AST's request to finish the implementation, AST was allowed to perform some tasks. However, due to continued issues and missed critical path and milestone dates, Loudoun notified AST on November 6, 2015 that the project is being placed on hold until an acceptable cure plan is in place to address all outstanding issues.

AST and County executives met on November 13, 2015, December 15, 2015, and again on March 21, 2016 to discuss the path moving forward, and both parties are actively working towards a solution to successfully complete the project. The County also engaged Oracle Consulting and Sales in October 2015 to assess the overall “health” of the project, from which it was determined that the solution built to date has overly complex and unnecessary configurations. The County further retained Oracle Consulting to conduct a comprehensive assessment of the Phase 2 solution using the standard Oracle Unified Method (OUM - Oracle’s methodology for deploying Oracle-based business solutions) to determine if AST’s designs were optimal for Loudoun’s requirements (leveraging out-of-the-box functionality where possible), as well as to define what it will take to implement a fully functional system that meets Loudoun’s requirements.

This five week effort was initiated on January 11, 2016 at the Ridgetop Circle ERP project office. The first three weeks were comprised of review and discovery tasks, during which Oracle Consulting reviewed process, procedures, and requirements documents with Loudoun functional and technical resources. The fourth week was spent assessing the referenced documentation and discovery findings against the current system build (as built by AST). The fifth week concluded with preparation of Oracle Consulting’s findings and recommendations report and “roadmap” to best move the project forward, including any technical upgrades and/or enhancements.

FISCAL IMPACT: All ERP Implementation Funds have been released, however, the remaining balance of funds has not been fully expended. An estimated \$6.4 million of total funding remains available in the budget (including the \$1.5 million of fund balance added in December 2015). This includes \$2.5 million for Post Go Live Support, \$1.9 million in unallocated fund balance (includes funds recently encumbered to extend the Vivad Technologies contract for 12 months for Client Management services.) and \$1.7 million in remaining funds unpaid to AST. Further, the cost to complete the implementation is being determined and payment terms are being addressed per the ongoing contractual discussions between AST and the County.